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MARKET SEGMENT REPORT **PIZZA** PAGE 127

Restaurant Business

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NOVEMBER 1, 1988

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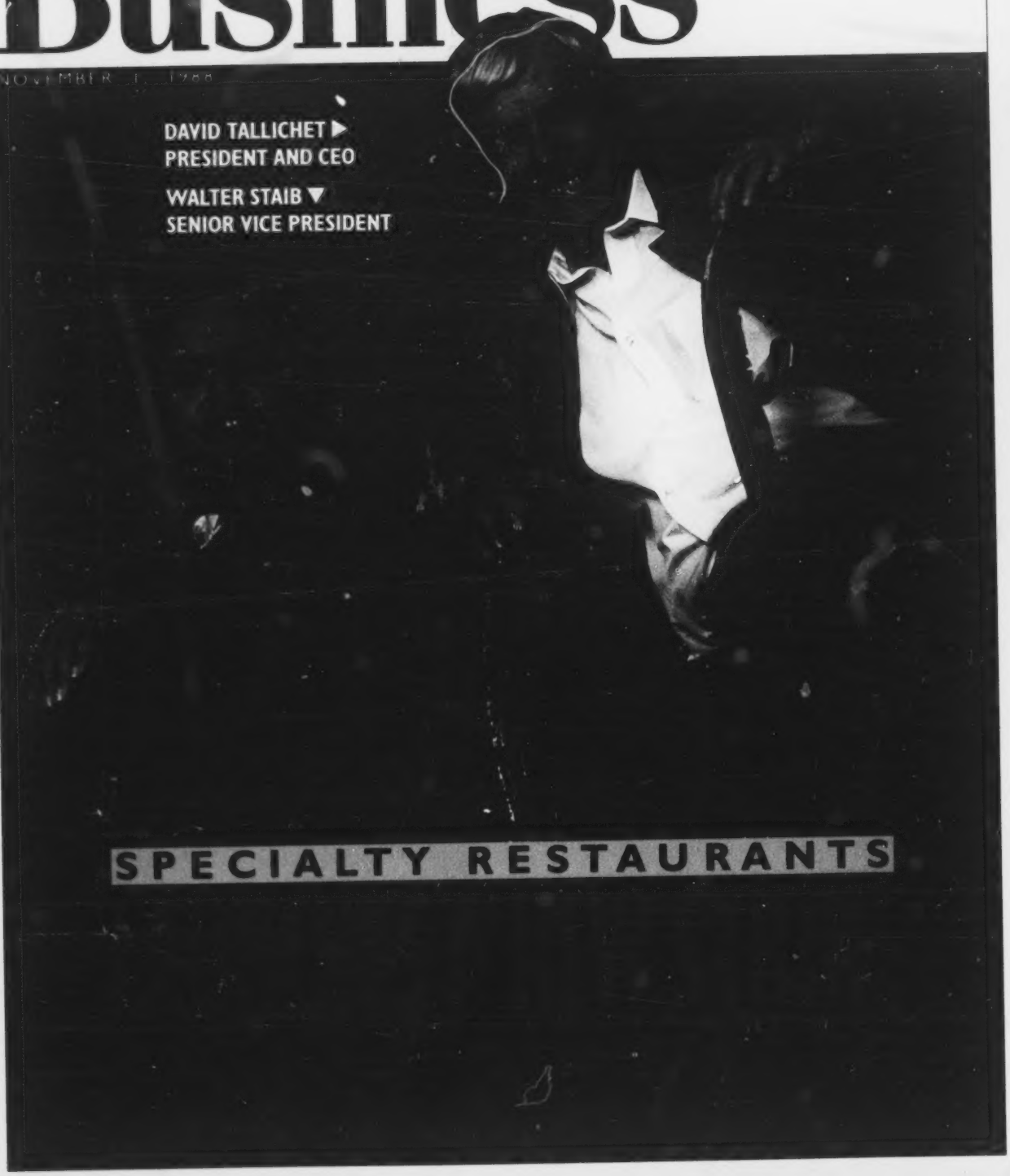
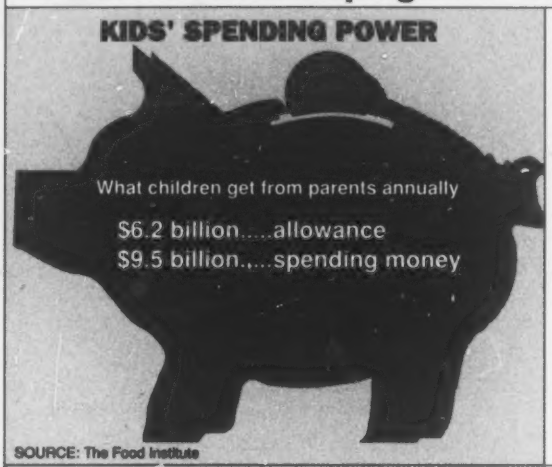


SPECIALTY RESTAURANTS

BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

By Howard Riell



SOURCE: The Food Institute

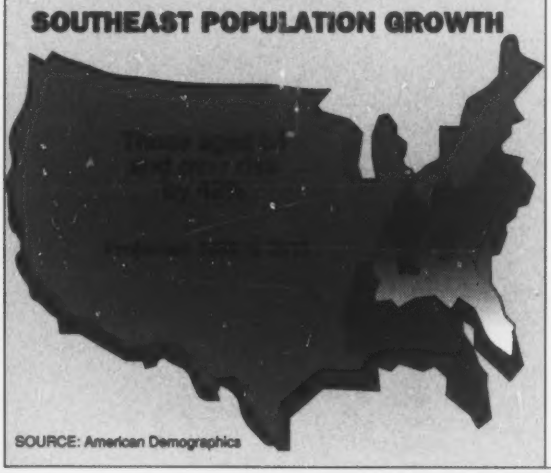
It's All Child's Play

Why did Wendy's recently risk million of dollars on the appeal of someone named Mr. Potato Head? Ask your child. Besides the incredible financial resources kids wield, the little darlings exercise a tremendous amount of control over where the family dines. A full 83% of parents surveyed by the burger chain called their kids a "strong influence" in selecting a restaurant. If you doubt who's making the dining-out decisions, just check the number of chains that, like Wendy's, have added items specifically for children. It's not what comes out of the mouths of babes that operators should consider, but what goes in.

SOURCE: National Restaurant Association

Having Too Much Fun To Eat?

While the contract feeding market's overall share of institutional foodservice sales has grown steadily, only one of its segments—recreation (sports centers, drive-in movies, bowling lanes, clubs, and sporting and recreational camps)—has dipped. The NRA attributes this 0.1% drop "primarily to the continued proliferation of theme parks that operate their own foodservice." Despite that loss of market share, says NRA, the segment is expected to top the $1.6 billion mark this year, thanks in part to a forecasted increase in attendance at sporting events.



SOURCE: American Demographics

The Prevailing Southeasters

The Southeast region of the U.S.—encompassing the states of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North and South Carolina, Tennessee, Virginia, and West Virginia—is the nation's fourth largest in terms of population. Its overall population should grow by 28% over the next 22 years, especially among older Americans. The group aged 20 to 64 will grow by only 27%. Those under 20 will increase by 21%. Households are expected to increase from 21 million to 30 million. Average household income should follow suit, jumping 24%, from $29,724 to $36,814.

CHARTS BY SHARI FANG

RESTAURANT BUSINESS

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TURNAROUND STRATEGY **SPECIALTY RESTAURANTS.** *In the 1970s, Specialty Restaurants ruled the theme-restaurant skies. But a series of ownership changes left the company strapped for cash, and competitors were coming on strong; by its own admission, Specialty Restaurants was putting more emphasis on location than food and service, and savvy customers were beginning to understand the difference. Sales slackened, and bank funds dried up; morale plummeted. It was time to mount a counterattack. The plan? More emphasis on food quality, merchandising, and marketing, and a restructuring of management* 113

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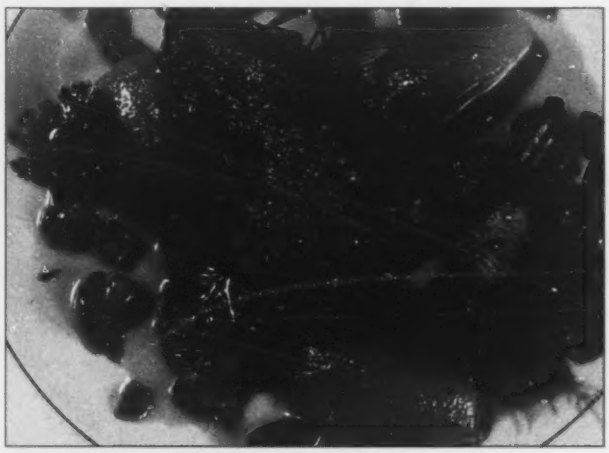
SPECIAL OFFER

Restaurant Business now has available specially prepared reprints of the **1988 RESTAURANT GROWTH INDEX** and the **1988 MAJOR FORCES IN FRANCHISING.** These annual studies are invaluable reference tools.

The reprints are available for $5 per copy. Direct orders and inquiries to: Editor Peter Berlinski, *Restaurant Business* Magazine, 633 Third Avenue, New York, NY 10017.



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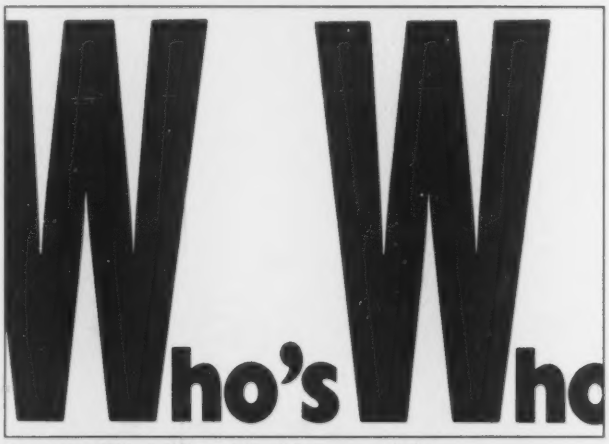

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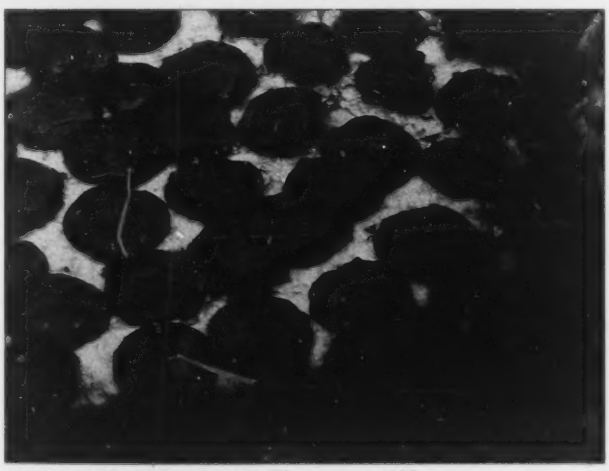

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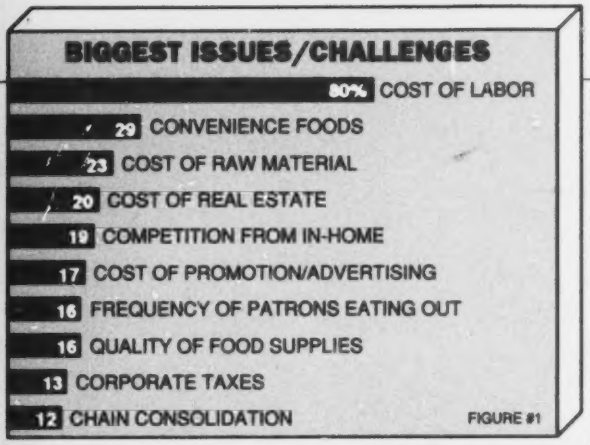
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FIGURE #1

SURVEY LOOKS AT THE 1990s, MAPS CHALLENGES, POTENTIAL

The rising cost of labor will be the biggest challenge facing the restaurant industry in the coming decade, according to the recently released results of a survey taken at the National Restaurant Association show.

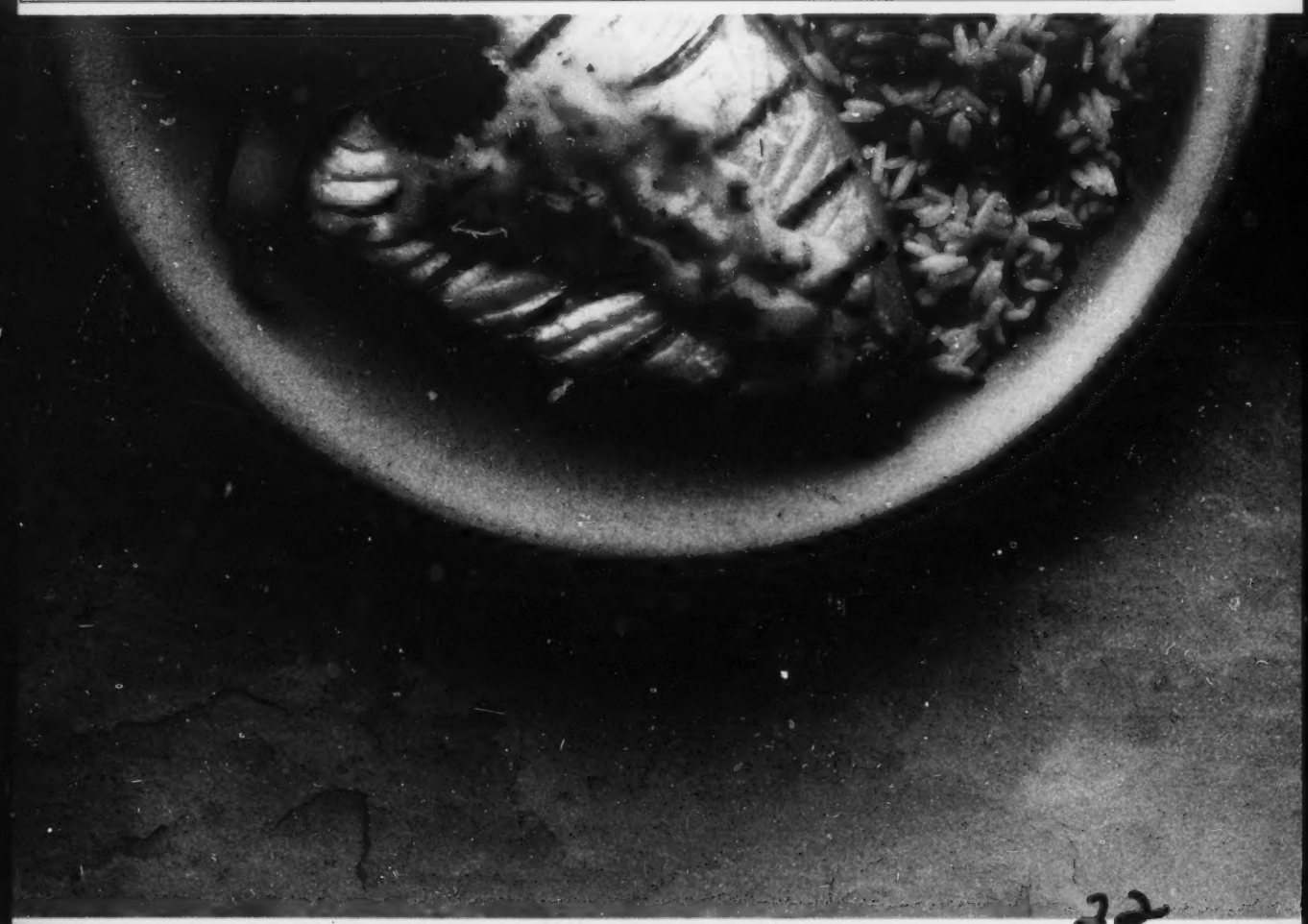
Other noteworthy findings of the survey, which polled corporate decision makers attending the NRA show: Fruit juices are judged as having the greatest sales potential among beverages; American cuisine is expected to come on strong; and the hotel and hospital feeding segments will experience less growth than almost all others mentioned.

The survey was conducted by Tarrytown, NY-based Research Performance Inc.

The continued encroachment of convenience foods on the traditional foodservice market, the rising cost of raw materials and real estate, and competition from the at-home segment will also make the going rough, according to the decision makers.

The cost of labor was far and away the greatest concern of those who took part, drawing mention from 80% of the respondents. Convenience foods was a distant second, with 29%. Other challenges included the cost of promotions/advertising, dining-out frequency, quality of food supplies, corporate taxes, and chain consolidation (see figure 1).

Chain restaurants will lead the industry in growth as the next century approaches, according to 42% of those questioned (see figure 2). Interestingly, convenience stores, some of which have experienced trouble expanding their foodservice



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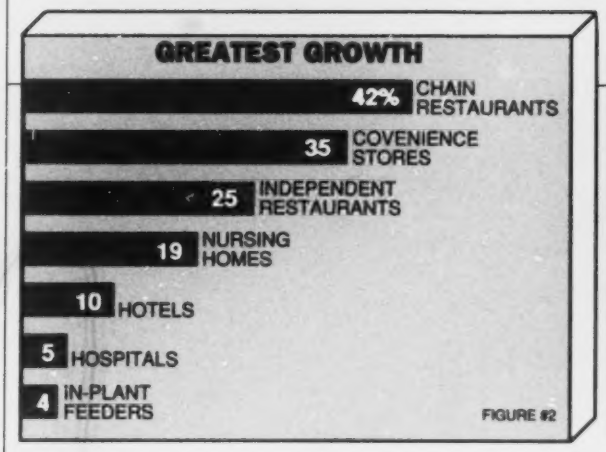

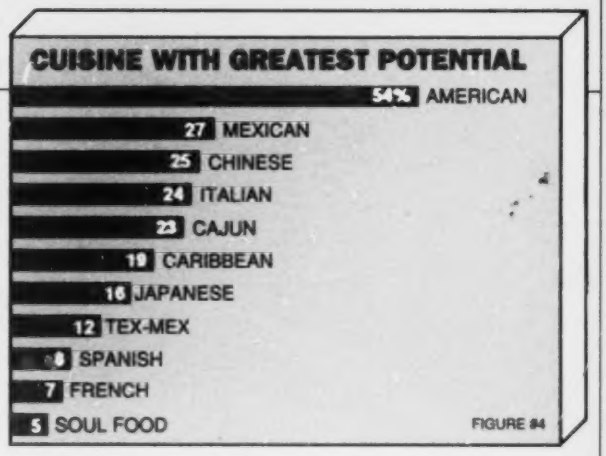

offerings, finished second, with 35%.

Faring poorly, respondents opined, will be hotel properties, with just 10%; hospitals (another surprise, since many contract feeders have targeted this foodservice segment as a solid growth vehicle in the next decade), with 8%; and in-plant feeding, with 4%.

The respondents tagged healthier, lighter foods like chicken, vegetables, fish, salads, and diet items as the major areas of opportunity in the 1990s. Chicken led the way with 46%, followed by vegetables, 39%, and fish, 36%. Beef, game, and cheese scored near the bottom, with just 10% each. Veal finished last, with only 8%.

American cuisine is viewed as having the most potential through the next decade, with 54% of respondents mentioning it (see figure 4).

Mexican food, though finishing second, garnered just half the number of mentions that American did, with 27%.

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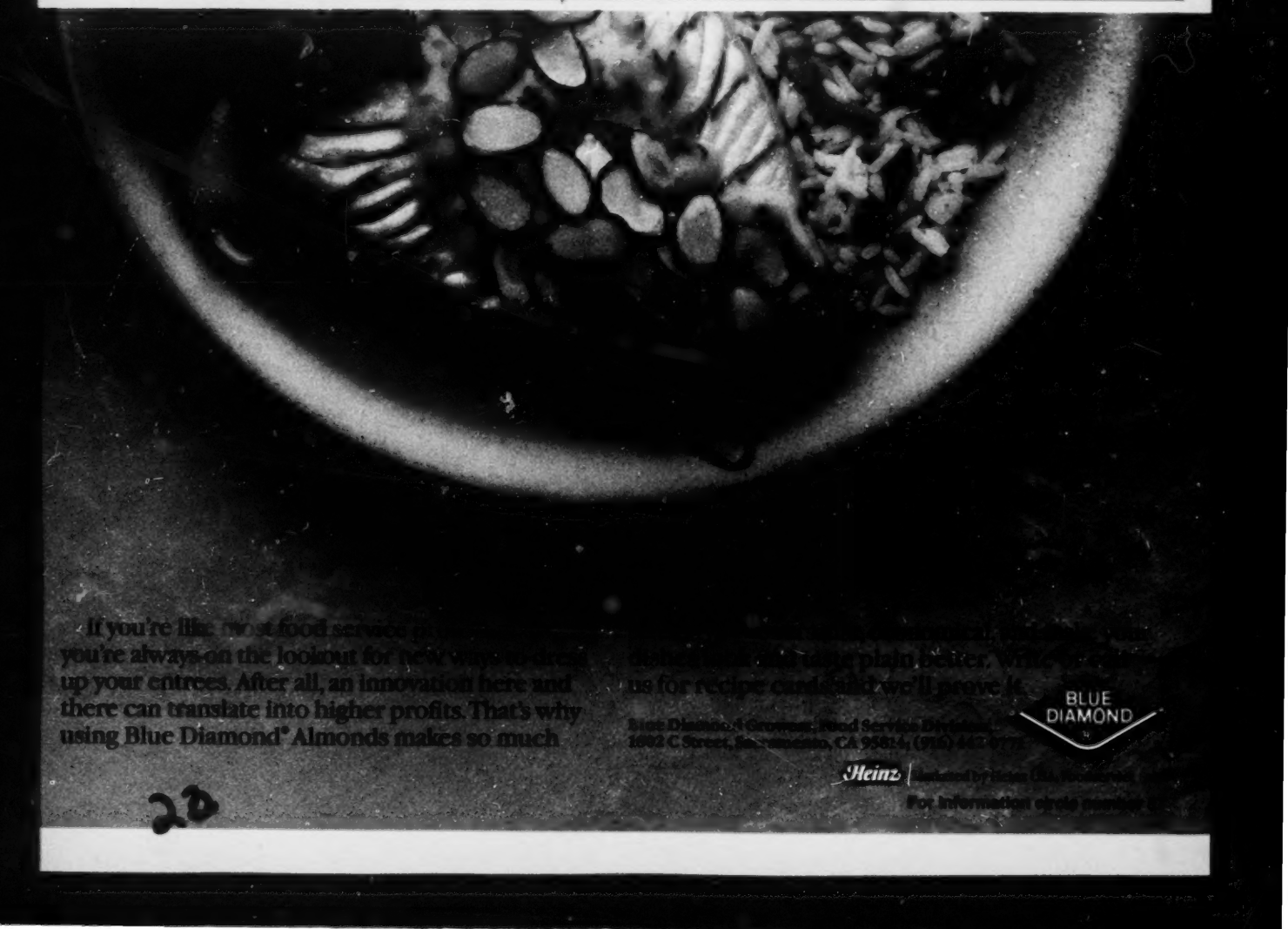
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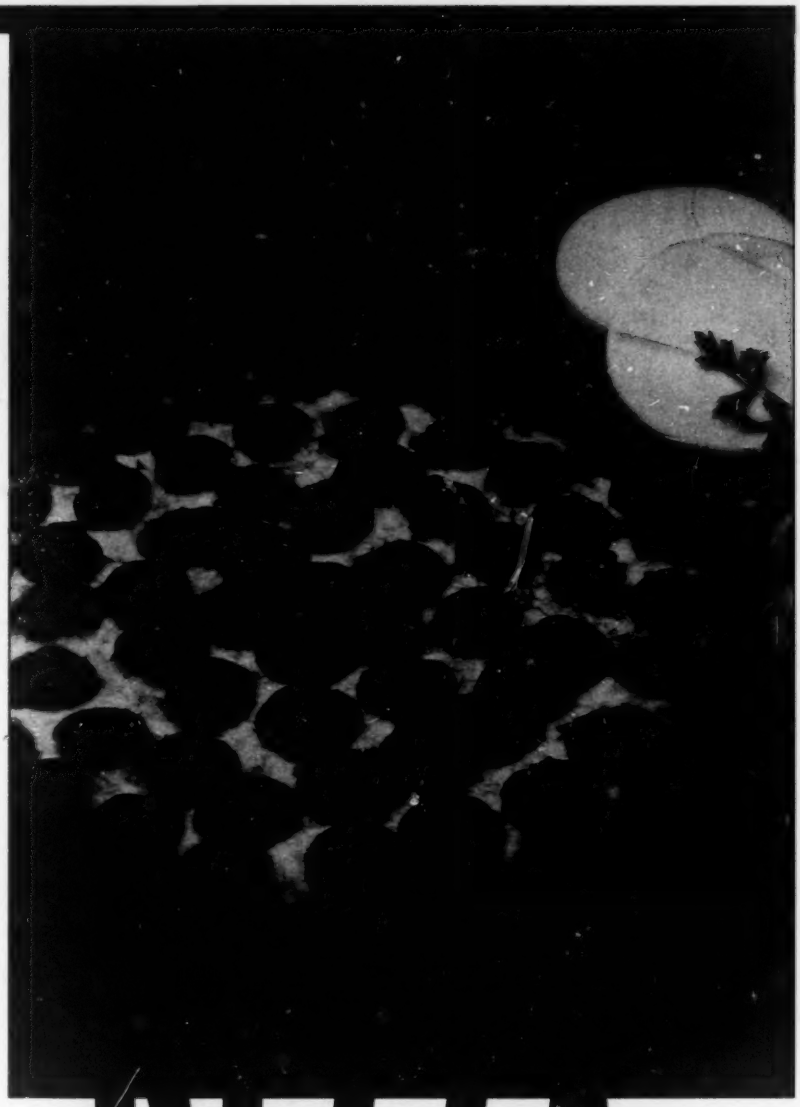

Round Table's pepperoni pizza pie.

PIZZA

The delivery trend and discounting strategies have escalated an already competitive segment.

BY PAUL FRUMKIN

The pizza segment has long been an area of high growth. But, along came home delivery and discounting, and suddenly the market seemed to explode. Sales began to climb, and chains such as Domino's and Little Caesars were setting industry records for unit growth.

Already intense competition escalated still further, until it began to resemble the "Battle of the Burgers." Now the "Pizza Wars" rage, with dozens of national and regional pizza chains vying for a larger share of the ever-increasing $13 billion pizza market.

"The market is as competitive as we have ever seen it," says Steve Frisbee, manager of public affairs for Omaha-based Godfather's Pizza.

"Pizza has become an extremely competitive segment," agrees Steven Rockwell, vice president with Alex. Brown & Sons in Bethesda, MD. "Not only are there a number of very rapidly growing chains like Little Caesars and Domino's, but there is also a strong 'mom and pop' contingent as well."

In its 1988 study of the largest U.S. restaurant chains, Technomic Inc., a Chicago-based consulting group, reported that real growth within the pizza segment had hit 12.7% in 1987—making it one of the fastest growing menu segments.

The segment continues to experience tremendous unit growth as well. According to Restaurant Consulting Group, based in Evanston, IL, the number of restaurants serving pizza increased from just over 31,000 in 1985 to 41,270 in 1987—a jump of nearly 25%.

Few would argue that a shift toward off-premise dining—as indicated primarily by the home delivery boom—is largely responsible for boosting the pizza segment. Led by the Ann Arbor, MI-based Domino's Inc., the delivery market is expected to account for fully

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Dozens of national and regional chains are vying for a larger share of the ever-increasing $13 billion market.

California Pizza Kitchen restaurants are designed to look more upscale than the average pizza "joint."

one third of total pizza sales by 1990, according to CREST, a service of NPD Research based in Park Ridge, IL.

SEGMENT LEADER. The focus on off-premise catering has forced many pizza chains to reassess their strategies—most notably segment-leader Pizza Hut. Under president and chief executive Steven Reinemund, the Wichita, KS-based pizza chain, owned by PepsiCo Inc., has dramatically shifted its focus from eat-in to delivery.

Allan Huston, Pizza Hut's chief financial officer, estimates that while sales at eat-in restaurants are expected to grow by 4% to 5% over the next few years, delivery sales could increase by as much as 25%.

At the same time, discounting and promotions continue to have a major impact on the way pizza chains are doing business. Little Caesar Enterprises, another fast-track chain based in Farmington Hills, MI, offering carryout only, further fueled sales—and the already overheated competition—when it began offering its Pizza! Pizza! promotion: two pizzas for one price.

But while pizza has emerged as one of the fastest growing segments in the foodservice industry, experts are predicting saturation within a few years. Pizza Hut's Huston says, "The pizza industry has experienced a 14% revenue growth over the last five years—of which 9% has been through new unit or development growth. Based on those figures, we project that our segment could saturate itself within the next five years to eight years."

As a result, pizza chains across the country are jockeying aggressively for the post position, and utilizing a variety of strategies and new products to get there. Pizza Hut, which dominates the segment with more than $2.5 billion in domestic sales and nearly 5,700 units located across the country, has embarked on an ambitious campaign that its officials hope will ensure its dominance within the market.

"The company's objective is to move from being simply an eat-in restaurant company to being a pizza distribution company," says Reinemund. To that end, Pizza Hut is not only stepping up construction of delivery units—the company plans to have 1,800 in operation by the year's end—but is developing other types of units that will allow it to enter as many venues as possible. After delivery, Pizza Hut intends to push its Express units: counter-service operations suited to in-line locations and mall food courts. The company is also testing a combination unit—a trio of concepts in one operation that includes PepsiCo's other two restaurant chains, Kentucky Fried Chicken and Taco Bell—as well as a small kiosk that can be located in such public areas as airports.

But Pizza Hut is concentrating on more than just new operational vehicles. The chain recently completed the rollout of a major new product, the Hand-Tossed Pizza. While Pizza Hut already had both a thin-crust pie and a thick-crust pie on the menu, studies revealed that a substantial portion of the pizza-buying public preferred something in the middle.

Pizza Hut has also taken on Little Caesars' Pizza! Pizza! with its own version of discount merchandising called Pairs. The promotion usually offers two medium-sized pies—all three styles are featured at various times—for about $10.99.

DOMINO THEORY. In the meantime, Pizza Hut's chief competitor in the delivery market, Domino's Pizza, continues to look for ways to close the gap between the two companies. However, after opening a record-setting 950 units in 1985, Domino's has slowed growth down to a more manageable 500 to 600 units a year. At the end of 1987, the company had almost 4,300 stores in operation, with systemwide sales totaling about $1.98 million—an increase of more than 25% over the previous year.

While Pizza Hut is racing to catch up with Domino's lead in the delivery market, Domino's is hoping to reproduce Pizza Hut's success with its Pan Pizza—which, together with its Personal Pan Pizza, accounts for 70% of Pizza Hut's sales. Domino's has had its own version of a pan pizza in test for six months in 12 units in Cedar Rapids, IA.

Domino's added another element to the pizza-segment mix last summer

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A recent industry study reports that real growth in the pizza segment hit 12.7% in 1987.

Godfather's rolled out a dessert pizza with two fillings—apple and cherry—and a streusel topping. They sell for $3.99.

when it launched its newest concept, Pizza Dispatch. Targeting the price-conscious market from a different angle, the Florida-based Pizza Dispatch units offer smaller, lower-priced cheese pizzas than standard Domino's units do. The menu features 10-in. and 14-in. pies for $4.20 and $6.15, respectively. Regional toppings, available at an extra charge, include *chorizo* (a spicy Spanish sausage), pineapple, jalapeño peppers, and bacon. The crust is thicker than the traditional Domino's pie and the sauce is spicier. Domino's expects to have about 40 Pizza Dispatch units in operation in Dade and Broward counties by the end of the year. Like standard units, all Dispatches are delivery and carry-out only.

'TWOFER.' Little Caesars, the carry-out-only pizza chain based in Farmington, MI, has also been pulling out the stops when it comes to growth. In fact, since 1983, the number of units has tripled. While the chain ended 1987 with 1,820 units and systemwide sales of $750 million, it expects to close this year with over 2,300 units and sales of $1 billion.

"For a number of years we grew slowly but soundly; the last five-years have seen much more rapid growth," says Lisa Ilitch Murray, director of corporate communications.

Little Caesars has expanded operations through five different concepts: carryouts; drive-thrus; concession/mall locations; Pizza Stations (fast-service restaurants with fresh salad, soup, pasta, and fruit bars); and Family Fun Centers (fast-service restaurants with play areas for children). Average store sales run slightly above $400,000.

Like Domino's, Little Caesars had a hand in altering the pizza segment during the 1980s. Its Pizza! Pizza! promotions forced most of the major chains into offering two pizzas for one price of their own. But, like Domino's, it also recognized a winner in Pizza Hut's pan pizza, and rolled out its version in the spring of 1988.

Called a Pan! Pan! pizza, the product is a deep-dish pizza with a crispy crust baked in a square pan. Pan! Pan!, like Little Caesars' other varieties, is being merchandised with the signature two-for-one-price deal.

While the Little Caesars' two-pizzas-for-one-price discounting has forced many of the other pizza chains to follow suit, a handful continue to resist. San Francisco-based Round Table Pizza, for example, is attempting to avoid this kind of discounting as much as possible.

"We've based our reputation on quality, and we feel that excessive discounting would potentially undermine that," explains Doug Rice, communications manager for the 540-unit chain. "We're trying to find some creative alternatives."

However, Round Table *has* implemented some discounting. "We've done some spot promotions where the competition has made it necessary." Rice says. By competition, Rice is referring to the "big three"—Pizza Hut, Domino's, and Little Caesars—all of which have made concerted expansion drives recently in California and the 10 other western states Round Table is located in. The growing competition has forced Round Table—as well as a number of other smaller regional chains—into something of a defensive posture. As a result, systemwide sales for the past year have largely remained flat at about $265 million.

To combat the competition, Round Table has made an effort during the past year to expand its delivery capacity. There are 100 eat-in restaurants currently offering delivery, and Rice

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says he expects that number to double within the next year.

Round Table is also reassessing its menu, which offers pizza along with sandwiches, calzones, a salad bar, and Pizzatatoes—half of a potato scooped out and filled with pizza toppings.

The company is also beginning to expand its remodeling program. A few restaurants have been renovated during the past year, but Rice says the program will be accelerated during the next year or two.

Round Table will also continue expanding—adding at least 50 restaurants during the next year in the United States and, perhaps, Japan.

As with Round Table, systemwide sales for the Phoenix-based Peter Piper Pizza are expected to remain relatively flat for 1988. According to Don Pijut, director of marketing for the 110-unit company, sales for 1988 will continue to hover around 1987's total of $57 million.

SUPERMARKET COMPETITION. And again, one of the primary reasons is the aggressive expansion of Pizza Hut, Domino's, and Little Caesars into the eight southwestern states Peter Piper is located in. However, in addition to the erosion in sales caused by other pizza chains, Peter Piper is also encountering competition from frozen supermarket pizzas. To help combat the competition, Peter Piper has begun to offer the standard promotion—two pizzas for one price.

Additionally, the company is hoping to attract more family business by offering a package for children. Called the "Kid's Pizza Pack," the package contains a 6-in. pizza, a 12-oz. soft drink, and a prize. Depending upon the location, the package sells for between $1.99 and $2.29.

Pijut adds that the company has, at least for the moment, no intention of entering the delivery market. Predominantly a dine-in and carry-out concept, Peter Piper restaurants seat about 200 and offer a limited menu of pizza, salad, soft drinks, and beer. Each operation runs an average per-person check of about $6, and generates average unit sales of $500,000. Of the company's 110 stores, 69 are franchised.

One recent victim of the pizza wars is Rocky Rococo, the regional pizza chain based in Madison, WI. After expanding rapidly for the past few years, the chain suddenly shut down 30 of its 128 restaurants. The company said that the closings were the result of disappointing sales and high operating costs.

OUT OF THE SLUMP. But while some chains are struggling to run in place, others are beginning to break out of a slump. After more than two years of disappointing growth for Godfather's Pizza, the future may be brightening a bit. With the proposed buyout from parent-company Pillsbury by president Herman Cain and executive vice president Ronald B. Gartlan finally completed, the 600-unit company appears to have stabilized. According to manager of public affairs Steve Frisbee, the company "is continuing to rebound. Business was flat for the first part of the year, but it has begun to improve recently."

With average annual unit sales of $414,000, the company achieved systemwide sales of $242 million in 1987. Approximately 50 to 60 new stores will be added in the next 12 months.

Although Godfather's executives won't reveal what is in store for the company now that Cain and Gartlan have completed the LBO, some

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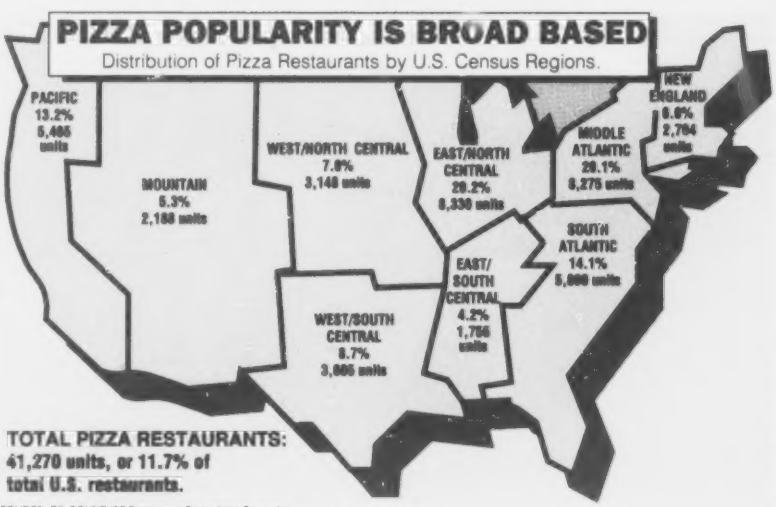
TOP FIVE PIZZA CHAINS

	UNITS	1987 SALES
PIZZA HUT Wichita, KS	5,394	$2.5 billion
DOMINO'S PIZZA Ann Arbor, MI	4,279	1.9 billion
LITTLE CAESAR ENTERPRISE Farmington Hills, MI	1,820	725 million
PIZZA INN Dallas, TX	710	310 million
ROUND TABLE PIZZA San Francisco, CA	515	265 million


PIZZA POPULARITY IS BROAD BASED
Distribution of Pizza Restaurants by U.S. Census Regions.
PACIFIC 13.2% 5,465 units
MOUNTAIN 5.3% 2,168 units
WEST/NORTH CENTRAL 7.8% 3,148 units
EAST/NORTH CENTRAL 20.2% 8,330 units
MIDDLE ATLANTIC 20.1% 8,275 units
NEW ENGLAND 6.6% 2,764 units
SOUTH ATLANTIC 14.1% 5,800 units
EAST/ SOUTH CENTRAL 4.2% 1,756 units
WEST/SOUTH CENTRAL 8.7% 3,605 units
TOTAL PIZZA RESTAURANTS: 41,270 units, or 11.7% of total U.S. restaurants.

SOURCE: RE-COUNT '87 Restaurant Consulting Group Inc.

CHARTS BY SHARI FANG

The burgeoning delivery market is expected to account for fully one third of total pizza sales by 1990.

ShowBiz Pizza Time Inc. has reduced the number of video games in units to more accurately target smaller children and families.

changes are expected. Meanwhile, the company continues to roll out new products and fine-tune operations. The most recent menu rollout is Godfather's dessert pizza. The 10-in. pie comes with one of two fillings—apple or cherry—and a streusel topping. Available on both the lunch and dinner buffets, the pies sell for $3.99 each. In addition, Godfather's introduced a Hand-Stretched thin crust pizza earlier this year. That product is now being offered in all units nationwide.

The company is also responding to the shift toward delivery by adding delivery-only units. While Godfather's has fewer than a dozen such units, it expects to add more in the future.

Godfather's is not the only pizza chain that has experienced its share of difficulties in the 1980s. Two years ago, ShowBiz Pizza Time Inc., the Irving, TX-based owner and operator of Chuck E. Cheese and ShowBiz Pizza Place restaurants, was on the brink of bankruptcy. Recently, however, the company completed its tenth consecutive quarter of real sales growth—estimated at better than 6%.

Owned by Integra—which also operates a number of hotel concepts as well as Monterey House restaurants—the 275-unit pizza chain took a sharp nosedive in the mid-1980s when the video game craze seemed to come to an abrupt halt. At the same time, chain officials were forced to admit that the food quality had also been suffering. According to Dick Frank, president and chief executive, a turnaround was effected when the company repositioned the concept. "The original target market had been teenagers, and each unit had about 70 video games," Frank explains. "We made the decision to target kids between the ages of two and 11 and their parents." Additionally, the number of video games was reduced to 15, and the quality of the food was improved.

Bolstered by an aggressive marketing program, ShowBiz set about to rebuild its image. Today, the once-foundering chain is again profitable and poised for expansion. With two new stores in operation, ShowBiz expects to open 15 more within the next 12 months.

Systemwide sales for 1987 totaled $230 million, and Frank projects that figure to rise to $256 million in 1988.

With the problem of food quality addressed, ShowBiz has also begun testing breakfast in the Dallas-Ft. Worth restaurants on weekends. The company has also implemented a remodeling program that will update 20 stores a year. "Once the stores have been remodeled, we get sales increases of 10% to 12% per store," Frank says. The long-term remodeling plan also includes the melding together of the two concepts—probably within three to five years.

CONVERSIONS. In a similar move, Dino's/Crusty's USA, the 204-unit chain based in Livonia, MI, has begun to streamline some operations through conversion from one concept to the other. Dino's, the company's original concept founded in 1957, are eat-in restaurants offering pizza as well as a number of Italian specialties; Crusty's is essentially a delivery/carry-out concept featuring mainly pizza and a limited number of salads.

According to Anthony P. Noga, the company's national franchise director, Dino's/Crusty's is converting Dino's restaurants to Crusty's wherever possible. All of the Dino's in Michigan are in the process of being converted to Crusty's, although the units located in Florida will remain unchanged. "In terms of the future business, that will largely come from Crusty's units," Noga explains.

Crusty's operates stores in the southeast as well as Michigan, Texas, Oklahoma, and Utah. The average unit sales for Crusty's runs about $365,000. Systemwide sales for 1987 totaled about $50 million, an increase of 10% over 1986 figures.

WIDE MENU. While many pizza chains avoid large menus, Boston-based Pizzeria Uno has taken time to fine-tune and expand its wide-ranging menu, according to Dave Leonard, vice president of administration. Opened in 1943 in Chicago by Ike Sewell, Pizzeria Uno continues to emphasize its signature deep-dish pizza. However, today the menu also includes hamburgers,

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Buffalo wings, pasta, salads, soups, baby back ribs, chicken, and desserts.

Pizzeria Uno restaurants seat approximately 150, and average $1.5 million in sales annually. The company prefers to convert existing restaurants rather than build from the ground up, so start-up costs can run from a low of $750,000 to $1 million.

With about 50 units open and a strong expansion plan under its belt, Pizzeria Uno has signed on a number of well-known foodservice executives as franchisees, including Lou Neeb and Art Gunther. Neeb, a former Burger King chief executive, has agreed to open 12 restaurants over the next five years in Texas and Mexico; Gunther, a former president of Pizza Hut, plans to open two restaurants in California within the next year and then one annually for the next six or seven years.

The 157-unit Pantera's Corp. clearly expanded its reach when it merged with the 750-unit Pizza Inn chain last year. Since then, St. Louis-based Pantera's has moved to establish Pizza Inn as one of the major pizza powers.

Earlier this year, it hired Chiat/Day to develop a more aggressive ad campaign that will focus on the quality of the chain's pizza. Pizza Inn is expected to spend up to $15 million this year on its ad budget.

The chain has also rolled out two new products: a New York-style pizza, with a medium-thick crust; and a dessert pizza, called a Pizzert. The Pizzert will be available with three toppings: apple, cherry, or peach.

Total systemwide sales at Pizza Inn totaled $270 million in 1987. Systemwide sales for Pantera's, on the other hand, ran $52 million last year.

But while mainstream pizza chains continue to battle for market share, smaller innovators are quietly attempting to establish their own niches in the market. Saucy's, a 73-unit pizza chain based in Everett, WA, is looking to take a bite out of the market with its "take-and-bake" pizza concept.

Founded in 1982, Saucy's offers fresh pizzas that can be prepared at home. The pizzas are available in both 12-in. and 15-in. sizes, and range in price from $4.99 to $14.95 for two large pizzas with seven toppings on each. The average sale is $8.

Although Saucy's specializes in "take-and-bake" pizzas, various stores also offer frozen yogurt and submarine sandwiches. The sales mix varies by store, however. While most of the stores are takeout-only, some locations offer seating. These larger formats gross between $16,000 and $18,000 a week. Systemwide sales for 1987 reached $7 million.

According to chief executive Marl Kane, Saucy's is concentrating expan-

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sion into the smaller communities—"locations where the other guys aren't," he says. Kane expects to have 80 stores open by the end of 1988, with another 20 stores added in 1989. "We're not looking to grow too fast," he adds.

NONTRADITIONAL. California Pizza Kitchen (CPK) is another company that is not likely to be confused with any of the major players. Based in Los Angeles, CPK offers an array of nontraditional pizzas cooked in Italian wood-burning ovens. A few of the company's more innovative pizza selections include barbecue chicken, duck sausage, burrito, Thai chicken, Peking duck, goat cheese, and shrimp-pesto.

"We offer what has come to be known as 'California pizza'," says John Kaufman, director of operations. "It started with Alice Waters and Wolfgang Puck, and we simply capitalized on it."

Many experts are predicting that the market will become saturated within just a few years.

To help develop the menu, owners Larry Flax and Rick Rosenfield—both former lawyers—hired chef Gary Beauregard, a veteran of Wolfgang Puck's Spago. In addition to pizzas, CPK also features a number of pastas, calzones, and grilled entrees such as chicken sausage. The average check runs from $8 to $10 at lunch and $12 to $14 at dinner.

California Pizza Kitchen restaurants are designed to look more upscale than the average pizza restaurant. The recently opened Atlanta unit has a raised display kitchen housing a wood-burning oven with two smokestacks rising 60 feet into the air. All restaurants are decorated with white tiles, mirrors, and neon. With seven restaurants operating, CPK expects to have 13 open by the end of 1989.

And while the rest of the mainstream pizza chains battle it out for their piece of the market, Kaufman is optimistic about the growth potential of CPK. "We're not really worried about the competition," he says. "There's nobody in our league as far as pizza goes."

For the small mom-and-pop independents, though, the growing rivalry with the major chains is uppermost on their minds.

"Competition is still fierce," says Amy Lorton, associate editor with *Pizza Today*, a trade publication for the

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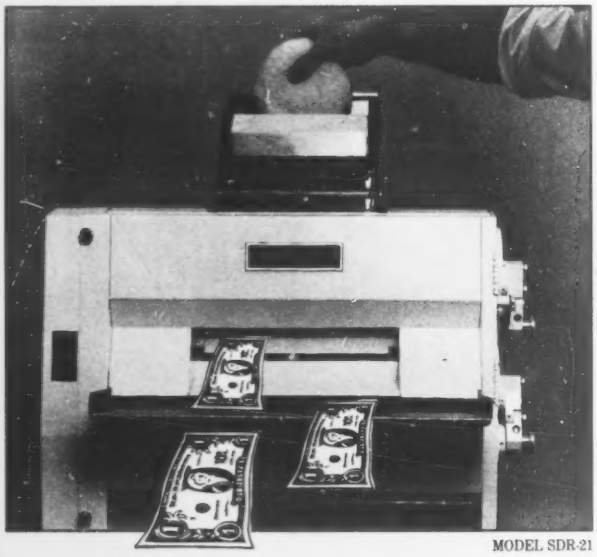

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National Association of Pizza Operators. "And independents are forced to battle it in their own way."

One independent, Doug Wilken, owner of the Pizza Shack in Freeport, IL, took a somewhat unorthodox approach to boosting business when a building with substantially more space became available in his neighborhood.

"We wanted to expand, and a lot of the townspeople said Freeport needed an entertainment center for the family," Wilken explains. "So we bought the new building and opened a 10-hole indoor miniature golf course in the restaurant."

Obviously, though, Wilken's solution is hardly feasible for most small operators. But a former independent operator, Michael Piancone, thinks he may have found a solution to the pizza wars with his San Diego-based U.S. Pizza Network (USPN). "There's tremendous pressure on the small guy," he observes. "And the competition is increasing every day. The small independent has better pizza, but he's losing the war because he doesn't have the marketing power of the chains."

According to Piancone, USPN will change that by enabling independents to band together. For $100 a month, network members receive 1,000 free pizza boxes as well as a discount on equipment and other supplies. The network will also be distributing two million credit cards to 18- to 25-year-olds. The cards will be accepted only at the stores of network affiliates. Plus, credit cards will offer benefits to the frequent user. And this month, Piancone expects to have the "Telepizza" system in place. The system will allow customers to have a pizza delivered to friends or relatives anywhere in the country.

To date, USPN has 1,600 members—a number Piancone says will rise to 10,000 by the end of the year.

But meanwhile, independents must still find other ways to confront the giant chains opening in their neighborhoods. Elena DeLuca, who co-owns the 75-seat Little Italy Pizza in San Diego, CA, with her husband, Orazio, says that when Pizza Hut opened near their restaurant in 1987, business fell sharply. "We were down at least 15% for the year," she recalls.

To fight back, the DeLucas extended their delivery capacity by purchasing new trucks. At the same time, they responded to chain discounting by offering a unique promotion: a complete meal for two, including green salad, lasagna, spaghetti, garlic bread, and a 9-in. pizza, for $10—delivered. "It helped boost business dramatically," she says. "When you're an independent, you have to look within your resources, and find how best to fight back. And that's what we did."

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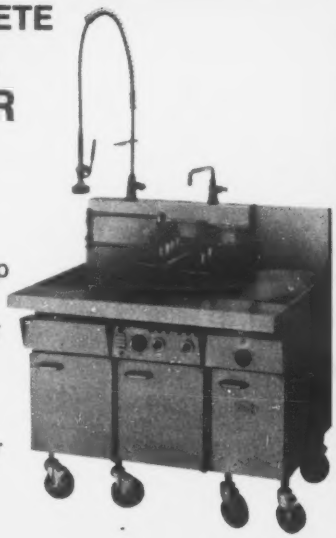

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